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C O N F I D E N T I A L SECTION 01 OF 05 ZAGREB 000107

SIPDIS

E.O. 12958: DECL: 01/03/2013

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SUBJECT: CROATIA: THREE YEARS OF POST-TUDJMAN GOVERNMENT; A
MIXED REPORT CARD

REF: 02 ZAGREB 0146

CLASSIFIED BY: AMBASSADOR LAWRENCE G. ROSSIN FOR REASONS 1.5 (B, D)

SUMMARY AND INTRODUCTION

1. (C) WITH ONE GREAT EXCEPTION, THE THIRD YEAR OF THE RACAN
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GOVERNMENT RESEMBLED THE FIRST TWO: CROATIA MADE MODEST
PROGRESS ON SOME REFORM ISSUES, STUMBLING FORWARD WHILE
SPENDING FAR TOO MUCH ENERGY AND TIME ON POLITICAL INFIGHTING
IN A HIGHLY DYSFUNCTIONAL DECISION-MAKING PROCESS. ON OTHER
ISSUES IMPORTANT TO CROATIA'S FUTURE, THE GOVERNMENT MADE NO
PROGRESS AT ALL, SQUANDERING OPPORTUNITIES WHICH MAY NEVER BE
RECAPTURED. OF COURSE, THE YEAR'S MOST SIGNIFICANT EVENT BY
FAR WAS THE RACAN GOVERNMENT'S MISHANDLING OF THE ICTY
INDICTMENT AGAINST RETIRED GENERAL JANKO BOBETKO. AS
EVERYONE (INCLUDING WE) PREDICTED, THE POLITICAL ADVANTAGE
RACAN GAINED BY FAILING TO DELIVER THE INDICTMENT IMMEDIATELY
HAS ALREADY EVAPORATED. THE DAMAGE DONE TO CROATIA'S
REPUTATION ABROAD WILL LAST MUCH LONGER.

2. (C) DIFFICULT AS IT IS TO BELIEVE, CROATIA'S GOVERNMENT
WILL BECOME EVEN MORE INEFFICIENT IN THE YEAR AHEAD AS
POLITICAL PARTIES BOTH IN AND OUT OF THE COALITION SEEK TO
MAKE THEMSELVES DISTINCT TO VOTERS. THE RACAN GOVERNMENT
WILL TRY TO GET CROATIA'S BID FOR EU MEMBERSHIP BACK ON THE
RAILS, BUT IT WILL BE CHALLENGED TO MAKE MUCH PROGRESS, SINCE
EUROPEAN GOVERNMENTS IN THE WAKE OF THE BOBETKO INDICTMENT
ARE MORE SKEPTICAL. BY LAW, THE CROATIAN GOVERNMENT CAN
DELAY ELECTIONS UNTIL EARLY 2004. RACAN WOULD LIKE TO PUT
OFF ELECTIONS AS LONG AS POSSIBLE TO MAKE MORE PROGRESS ON
CONCRETE ISSUES POPULAR WITH VOTERS. A MORE REALISTIC
EXPECTATION IS THAT RELATIONS WITHIN THE COALITION WILL
DETERIORATE FURTHER AND AT SOME POINT WILL BECOME AN
UNPALATABLE CHOICE EVEN FOR RACAN'S SDP.

3. (C) ON THE ISSUES MOST IMPORTANT TO US, THE REPORT CARD
FOR THE THIRD YEAR OF THE RACAN GOVERNMENT IS MIXED, WITH
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HIGH MARKS ON ISSUES LIKE ANTI-TERRORISM COOPERATION AND
DEVELOPING PRODUCTIVE RELATIONS WITH THE FRY, PASSING GRADES
ON SOME ECONOMIC AND A FEW DOMESTIC REFORM ISSUES, LOW MARKS
ON COOPERATION WITH ICTY, AND FAILING GRADES ON JUDICIAL
REFORM AND REFUGEE RETURN AND REINTEGRATION ISSUES. END
SUMMARY AND INTRODUCTION.

WASTING TIME ON COALITION POLITICS

4. (C) FULLY THREE YEARS HAVE PASSED SINCE THE ELECTIONS IN
WHICH A CENTER-LEFT COALITION LED BY PM RACAN'S SDP CAME TO
GOVERNMENT. IN JANUARY 2000, THE EXPECTATIONS OF CROATIAN
VOTERS -- AND OF THE INTERNATIONAL COMMUNITY -- WERE HIGH,
PERHAPS UNREALISTICALLY SO. THAT COALITION WAS BROUGHT
TOGETHER (WITH OUR ACTIVE ENCOURAGEMENT) WITH A SINGLE
PURPOSE: TO GET RID OF THE HDZ GOVERNMENT RESPONSIBLE FOR
CROATIA'S ISOLATION. ONCE THAT GOAL WAS ACCOMPLISHED, THERE
WAS LITTLE CONSENSUS WITHIN THE COALITION ON HOW TO MOVE
FORWARD. AS TIME PROGRESSED, THIS LACK OF SHARED VISION,
COUPLED WITH PM RACAN'S INDECISIVE LEADERSHIP STYLE, HAS
MEANT THAT EVERY TOUGH ISSUE, WHETHER ON ICTY COOPERATION,
REFUGEE RETURN, ECONOMIC REFORM, SOCIAL POLICY OR MILITARY
RESTRUCTURING, HAS DETERIORATED INTO A BICKERING BATTLE
BETWEEN COALITION PARTNERS. THIS YEAR, THAT PROCESS RESULTED
IN ENDLESS THREATS OF RESIGNATIONS AND RUMORS OF SNAP
ELECTIONS SO COMMON THEY WERE HARDLY NEWS ANYMORE.

5. (C) FOR THE FIRST HALF OF THE YEAR, RACAN'S BIGGEST
OBSTACLE TO GETTING ANYTHING DONE WAS HIS OPPOSITION FROM
WITHIN THE COALITION BY DRAZEN BUDISA'S CROATIAN SOCIAL
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LIBERAL PARTY (HSLs). AFTER BENDING OVER BACKWARDS TO
APPEASE THE OBSTRUCTIONIST, IMPERIOUS BUDISA, RACAN FINALLY
RESIGNED IN JULY, DISSOLVING THE GOVERNMENT IN A TACTICAL
MANEUVER TO RECONSTITUTE THE COALITION A MONTH LATER WITHOUT
THE HSLs. BUT GETTING RID OF BUDISA DID NOT GET RID OF
RACAN'S PROBLEMS. WITH THE NARROWEST OF MAJORITIES IN THE

PARLIAMENT, THE GOVERNMENT IS NOW HOSTAGE TO THE SPECIAL INTERESTS OF EACH OF THE SMALL COALITION PARTIES. FOR THE MOST PART, RACAN'S SDP HAS MANAGED TO BULLY ITS WAY FORWARD, BUT NOT WITHOUT EXTREME, TIME CONSUMING EFFORT, AND ALMOST NEVER WITHOUT THE RESENTMENT OF SMALLER PARTNERS.

CHANGING POLITICAL LANDSCAPE

16. (C) THE CROATIAN PEASANTS' PARTY (HSS) IS NOW RACAN'S SECOND LARGEST COALITION PARTNER. ALTHOUGH SMALL IN NUMBERS, IT IS BROADLY RECOGNIZED TO BE THE KINGMAKER ESSENTIAL FOR THE NEXT COALITION TO FORM A GOVERNMENT, WHETHER IT IS LED BY THE LEFT OR THE RIGHT. THE HSS SEES ITSELF AS A TRADITIONAL RIGHT-OF-CENTER PARTY, BUT IT IS REALLY ALL ABOUT POPULIST CONSTITUENT SERVICE, ENSURING THAT WHILE IT IS IN GOVERNMENT, ITS ELECTORATE IS WELL TAKEN CARE OF. IN CONCRETE TERMS, THAT HAS MEANT RISKING VIOLATING WTO COMMITMENTS WITH

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	ACE-00	P-00	SCT-00	SP-00	SS-00	STR-00	TRSE-00
	T-00	USIE-00	PMB-00	PRM-00	DRL-02	G-00	SAS-00
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INAPPROPRIATE AGRICULTURE SUBSIDIES, SLOWING DOWN PRIVATIZATION AND INSISTING ON A DISPROPORTIONATE SHARE OF POSITIONS OF AUTHORITY IN THE GOVERNMENT. THE CENTER-LEFT CROATIAN PEOPLE'S PARTY (HNS) IS THE OTHER KEY PLAYER IN THE RACAN GOVERNMENT. ALTHOUGH ITS REPRESENTATION IN PARLIAMENT IS SMALL, ITS FORTUNES (AND POLLING NUMBERS) ARE ON THE RISE. VESNA PUSIC, THE HNS' POPULAR LEADER, IS CONVINCED THAT THE LONGER THE COALITION REMAINS IN GOVERNMENT, THE MORE VOTERS

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WILL RECOGNIZE THE BENEFITS OF THE ECONOMIC STABILITY IT HAS BROUGHT ABOUT.

17. (C) THE BIGGEST CHANGE ON THE POLITICAL LANDSCAPE IN THE PAST YEAR HAS BEEN THE ATTEMPTS OF THE OPPOSITION HDZ TO RE-PACKAGE ITSELF AS A "REFORMED" PARTY. THE HDZ APPEARS TO BE SUCCEEDING IN CHANGING ITS IMAGE, EVEN IF IT REMAINS LARGELY UNREFORMED. NOW, EVERY DECISION RACAN MAKES IS INFLUENCED BY HIS FEAR OF LOSING POLITICAL SUPPORT. VOTERS WHO SUPPORTED HIS COALITION THREE YEARS AGO MAY NOW NO LONGER SEE THE HDZ AS AN UNPALATABLE CHOICE. HDZ PRESIDENT SANADER HAS WORKED HARD TO CHANGE THE IMAGE OF HIS PARTY. AFTER NARROWLY DEFEATING HARD-LINE TUDJMAN HATCHET MAN IVIC PASALIC IN A BRUISING BATTLE FOR THE TOP PARTY SPOT IN APRIL, HE USED ALL MEANS FAIR AND FOUL TO PURGE THE HDZ OF HIS RIVAL'S SUPPORTERS. WHILE SANADER'S MOTIVATION MAY HAVE BEEN SIMPLE POLITICAL REVENGE, THE RESULT IS THAT SOME OF THE HDZ'S MOST CORRUPT ELEMENTS ARE NOW ON THE OUTSIDE. THERE ARE STILL PLENTY OF UNSAVORY CHARACTERS IN THE SENIOR RANKS OF HDZ. OSIJEK STRONGMAN AND WAR CRIMINAL BRANIMIR GLAVAS COMES IMMEDIATELY TO MIND. BUT SANADER'S HDZ RECENTLY HAS TAKEN REASONABLE POSITIONS ON A NUMBER OF KEY ISSUES, INCLUDING ON A NEW LAW ON MINORITY RIGHTS. AS 2002 DREW TO A CLOSE, THE HDZ WAS THE HIGHEST-POLLING POLITICAL PARTY IN CROATIA.

BOBETKO INDICTMENT AND CROATIA'S GOOD NAME

18. (C) RACAN'S DECISION TO DELAY SERVING THE BOBETKO INDICTMENT WAS DRIVEN BY HIS BELIEF THAT, IF HE DID NOT GIVE THE PUBLIC THE IMPRESSION THAT HE WAS PUTTING UP A GOOD

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FIGHT, HIS GOVERNMENT WOULD FALL AND RIGHT-WING NATIONALISTS WOULD RETURN TO POWER. THE INITIAL PUBLIC REACTION TO THE INDICTMENT WAS EMOTIONAL. IT SHOCKED MANY INTERNATIONAL OBSERVERS WHO THOUGHT THAT CROATIA HAD EVOLVED PAST SUCH

VISCERAL NATIONALISM. THERE WAS REAL CONCERN BOTH IN AND OUT OF GOVERNMENT THAT HARDLINERS WOULD FOMENT VIOLENT UNREST AND TOPPLE THE GOVERNMENT. YET EVEN AFTER THE WAVE OF EMOTIONAL NATIONALISM HAD CLEARLY PASSED, RACAN SEEMED INTOXICATED BY THE INITIAL POSITIVE REACTION TO WHAT THE PUBLIC PERCEIVED AS DEFIANCE OF ICTY'S INDICTMENT "IN DEFENSE OF THE DIGNITY OF THE HOMELAND WAR." HE WAS DEAF TO WARNINGS FROM THE INTERNATIONAL COMMUNITY THAT HIS RHETORIC AND DELAYS IN SERVING THE INDICTMENT WERE GRAVELY DAMAGING CROATIA'S REPUTATION. FOR WEEKS AFTER IT BECAME CLEAR THAT HIS GOVERNMENT WAS IN NO DANGER FROM THE RIGHT WING, RACAN DELAYED, HOPING TO SCORE MORE POINTS, PUTTING DOMESTIC POSTURING BEFORE INTERNATIONAL CONCERNS.

9. (C) RACAN'S BUMP IN THE POLLS OVER BOBETKO IS LONG GONE. THE REVULSION OF THE INTERNATIONAL COMMUNITY, NOTABLY OF EU STATES, AT THE MANIFESTATION OF UNDILUTED NATIONALISM REMAINS. AT LEAST TWO HAVE SLOWED RATIFYING THE EU'S STABILIZATION AND ASSOCIATION AGREEMENT (SAA) WITH CROATIA. NO LONGER ARE CROATIA'S SUPPORTERS IN THE EU WILLING TO GIVE RACAN THE BENEFIT OF THE DOUBT ON ISSUES LIKE REFUGEE RETURN AND PROPERTY RESTITUTION. THE GOVERNMENT IS FACING TOUGH QUESTIONS ABOUT ITS SUPPOSED EFFORTS TO APPREHEND GENERAL ANTE GOTOVINA, THE 2001 ICTY INDICTEE STILL AT LARGE. EVEN THE CROATIAN PRESS, POURING FUEL ON THE JINGOIST FIRE JUST WEEKS AGO, NOW CRITICIZES RACAN FOR FAILING TO SHOW LEADERSHIP DURING THE CRISIS. RACAN'S SDP HAS SLID BEHIND
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THE HDZ IN THE POLLS AND SEEMS TO BE LOSING MORE GROUND EVERY WEEK.

10. (C) THE RACAN GOVERNMENT DOES NOT SEEM TO HAVE LEARNED ANY LESSONS FROM THIS UNFINISHED AFFAIR. IN THE ABSENCE OF CLEAR LEADERSHIP, CROATIA WILL FACE SIMILAR DISRUPTIONS EACH TIME AN INDICTMENT IS HANDED DOWN. SINCE THE GOVERNMENT HAS DELIVERED THE INDICTMENT TO THE LOCAL COURT OF JURISDICTION, CROATIA CAN ONCE AGAIN FORMALLY BE CONSIDERED TO BE COOPERATING WITH THE TRIBUNAL, BUT IT IS NOT CERTAIN THAT RACAN WOULD EVER FORCIBLY SEND AN INDICTEE TO THE HAGUE. WHILE CROATIAN WITNESSES CONTINUE TO COOPERATE WITH THE OFFICE OF THE TRIAL PROSECUTOR, THEY, TOGETHER WITH THE INDICTEES, ARE CONTROLLING THE PACE OF CROATIA'S COOPERATION, RATHER THAN THE RACAN GOVERNMENT ITSELF.

11. (C) ONE OF THE LONGER-LASTING EFFECTS OF THE GOVERNMENT'S MISHANDLING OF THE BOBETKO IS THAT DEPUTY PRIME MINISTER GORAN GRANIC, WHO REMAINS RACAN'S "GO-TO" MAN ON A BROAD RANGE OF ISSUES, HAS BECOME EMBITTERED AND RESENTFUL AND MAY BE LESS WILLING TO ENGAGE ON ISSUES IMPORTANT TO US. GRANIC HAS MANAGED CROATIA'S RELATIONS WITH ICTY SINCE THE RACAN GOVERNMENT CAME TO POWER. HIS DEEPLY HELD EMOTIONAL VIEW REMAINS THAT THE TEXT OF THE INDICTMENTS CALL INTO

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INFO	LOG-00	AID-00	CIAE-00	DODE-00	SRPP-00	EB-00	VC-00
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	NSAE-00	NSCE-00	OIC-02	OMB-01	PA-00	PM-00	PRS-00
	ACE-00	P-00	SCT-00	SP-00	SS-00	STR-00	TRSE-00
	T-00	USIE-00	PMB-00	PRM-00	DRL-02	G-00	SAS-00
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QUESTION CROATIA'S RIGHT TO DEFEND ITS TERRITORY AND "CRIMINALIZED" CROATIA'S HOMELAND WAR. THAT VIEW DROVE THE UNHELPFUL POLICY AND CHEST-THUMPING RHETORIC AT THE START OF THE BOBETKO AFFAIR. RACAN TOOK OVER DIRECT MANAGEMENT OF THE ISSUE FOR THE PEAK OF THE CRISIS, BUT NOW THAT IT IS OUT OF THE HEADLINES, GRANIC IS AGAIN MANAGING THE ISSUE AND HIS VIEWS HAVE NOT CHANGED, HIS RESENTMENT IS AGAIN CREEPING INTO HIS PUBLIC STATEMENTS.

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STUMBLING FORWARD, MUDDLING THROUGH

112. (C) CROATIA HAS MADE PROGRESS ON SOME KEY REFORMS, BUT THE PROCESS NEARLY ALWAYS CREATES SO MUCH BAD FEELING THAT EVEN COMMITTED REFORMERS ARE LOSING MOTIVATION. THE NEW MINORITIES LAW IS A GOOD EXAMPLE: THE RESULT WAS WELCOMED BY THE INTERNATIONAL COMMUNITY AS WELL AS BY CROATIA'S MINORITIES AS A SOLID STEP FORWARD, BUT THE PROCESS OF GETTING IT PASSED WAS SO ACRIMONIOUS THAT THE GOVERNMENT MANAGED TO ALIENATE MOST LEADERS OF CROATIA'S ETHNIC MINORITIES, AND EVEN MADE THE HDZ SEEM LIKE THE REASONABLE BROKERS WHO FINALLY PUT THE DEAL TOGETHER. UNEMPLOYMENT IS STILL VERY HIGH (16 PERCENT) AND REMAINS ONE OF THE GOVERNMENT'S BIGGEST POLITICAL LIABILITIES, BUT EVEN THAT INDICATOR IS SHOWING SIGNS OF IMPROVEMENT. BY FAILING TO ADEQUATELY INCLUDE UNIONS IN THE DRAFTING PROCESS OF A NEW LABOR LAW, HOWEVER, THE GOVERNMENT IS ALMOST CERTAIN TO LOSE THE ENDORSEMENT OF LABOR LEADERS IN THE NEXT ELECTIONS.

113. (C) CROATIA PASSED SWEEPING DEFENSE REFORMS AND A NEW NATIONAL SECURITY STRATEGY. IMPLEMENTATION OF THESE RESTRUCTURING PROGRAMS, INCLUDING A VITAL MILITARY DOWNSIZING PLAN, HAS BEEN SPOTTY AT BEST, MIERED BY A MIXTURE OF INSUFFICIENT POLITICAL WILL AND AN INSUFFICIENT BUDGET. WHILE THE RESOURCE CHALLENGES ARE REAL, OPPORTUNITIES FOR PROGRESS WERE LOST TO POLITICAL TURMOIL AND BICKERING ABOUT APPOINTMENTS TO SENIOR POSITIONS. NEVERTHELESS, CROATIA WAS WELCOMED INTO NATO'S MEMBERSHIP ACTION PLAN. ITS EAGERNESS TO JOIN THE ALLIANCE WILL BE AN IMPORTANT TOOL TO URGE THIS
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GOVERNMENT AND ITS SUCCESSORS TO GET NECESSARY REFORMS ON TRACK.

114. (C) THE RACAN GOVERNMENT HAS BEGUN TO TOUT ITS RECORD ON CREATING A CLIMATE OF MACROECONOMIC STABILITY. THROUGHOUT THIS THIRD YEAR IN OFFICE, IT MANAGED TO KEEP INTEREST RATES LOW TO ENCOURAGE INVESTMENT, KEEP THE KUNA RATE STABLE, INCREASE FOREIGN CURRENCY HOLDINGS AND AGAIN (AFTER A TORTUOUS PROCESS) MANAGED TO COME TO AGREEMENT WITH THE IMF ON A STAND-BY ARRANGEMENT. BUT THESE RESULTS ARE SLOW TO TRICKLE DOWN TO THE AVERAGE CROATIAN. LACK OF PROGRESS ON PRIVATIZATION AND JUDICIAL REFORM HAVE KEPT LEVELS OF FOREIGN DIRECT INVESTMENT LOW. GOVERNMENT DEBT IS REACHING WORRISOME LEVELS, AS THE GOVERNMENT CONTINUES TO SUBSIDIZE LOSS-MAKING INDUSTRIES. HOWEVER, BY SLASHING TARIFFS AND KEEPING INTEREST RATES LOW, THERE HAS BEEN A BOOM IN CONSUMER DEMAND WHICH HAS PUMPED UP GROWTH AND IMPROVED SOME CROATIANS' STANDARD OF LIVING.

GETTING BETTER AT REGIONAL RELATIONS

115. (C) THE RACAN GOVERNMENT HAS ALWAYS ASSERTED THAT IMPROVING RELATIONS WITH CROATIA'S NEIGHBORS IN THE REGION IS A TOP FOREIGN POLICY PRIORITY, BUT RESULTS HAVE BEEN MIXED. 2002 WAS A BETTER YEAR: SLOVENIA FINALLY LET RACAN OFF THE HOOK FOR HIS JULY 2001 GAFFE ON PIRAN BAY (INITIALING AN UNRATIFIABLE MARITIME BORDER AGREEMENT). CROATIA MAINTAINED A GENERALLY POSITIVE STANCE TOWARDS BOSNIA AND HERZEGOVINA, AND WHILE IT MADE NO REAL PROGRESS ON RETURNS ISSUES (SEE BELOW), IT RESOLVED A LONG-STANDING BORDER DISPUTE AT
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KOSTAJNICA AND CONTINUED TO ENCOURAGE BOSNIAN CROATS TO STRENGTHEN THEIR OWN COUNTRY'S CENTRAL INSTITUTIONS AND STOP LOOKING TO ZAGREB. THE MOST PROGRESS HAS BEEN MADE WITH YUGOSLAVIA. CROATIA AND YUGOSLAVIA FINALLY HAMMERED OUT A DURABLE "TEMPORARY" DEAL ON THE PREVLAKA PENINSULA, LEADING TO THE CLOSURE OF THE UN OBSERVER MISSION THERE. CAPPING A YEAR OF STEADILY IMPROVING ECONOMIC RELATIONS, ECONOMY MINISTER JURCIC SIGNED A FREE TRADE AGREEMENT WITH YUGOSLAVIA IN BELGRADE ON DECEMBER 23. CROATIA HAS MADE ENCOURAGING NOISES ABOUT WORKING CLOSELY WITH MACEDONIA AND ALBANIA, THE TWO OTHER "CONTINUING ASPIRANTS" FOR NATO MEMBERSHIP.

STRONG SUPPORT FOR ANTI-TERRORIST COALITION

116. (C) CROATIA'S SUPPORT IN THE WAR ON TERROR HAS BEEN CONSISTENTLY STRONG. IN ADDITION TO ITS CONTRIBUTION OF HUMANITARIAN ASSISTANCE IN APRIL, CROATIA MADE A SIGNIFICANT DONATION OF WEAPONS AND MUNITIONS TO THE AFGHAN NATIONAL ARMY, AND IN DECEMBER, THE PARLIAMENT APPROVED THE DEPLOYMENT OF A UNIT OF MILITARY POLICE TO AFGHANISTAN IN SUPPORT OF THE INTERNATIONAL SECURITY ASSISTANCE FORCE (ISAF). WHILE THE BALKY CROATIAN BUREAUCRACY HAS SO FAR PREVENTED PROGRESS ON A MIO REGIME, CROATIA, WITH A LITTLE DIRECTION FROM US,

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H-01 TEDE-00 INR-00 IO-00 L-00 VCE-00 AC-01
NSAE-00 NSCE-00 OIC-02 OMB-01 PA-00 PM-00 PRS-00
ACE-00 P-00 SCT-00 SP-00 SS-00 STR-00 TRSE-00
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INTERDICTED AND SEIZED THE MV BOKA STAR, A TONGA-FLAGGED SHIP
ATTEMPTING TO SMUGGLE ROCKET PROPELLANT FROM MONTENEGRO,
PERHAPS FOR ONWARD DELIVERY TO IRAQ. CROATIA NEEDS TO MOVE
FORWARD MORE QUICKLY ON RATIFYING INTERNATIONAL TERRORISM
CONVENTIONS IDENTIFIED BY UNSCR 1373, ESPECIALLY THE
INTERNATIONAL CONVENTION ON THE SUPPRESSION OF TERRORIST
FINANCE, WHICH IS STALLED IN THE GOVERNMENT'S BUREAUCRACY.

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FAILING GRADES ON REFUGEE RETURN AND JUDICIAL REFORM

117. (C) THE MOST DISAPPOINTING FAILURE OF THE RACAN
GOVERNMENT HAS BEEN THE DISPARITY BETWEEN RHETORIC AND
REALITY ON REFUGEE RETURNS AND PROPERTY RESTITUTION ISSUES.
THE NUMBERS OF ETHNIC SERBS RETURNING TO THEIR HOMES IN
CROATIA IN 2002 REMAINED FLAT WHILE NUMBERS ELSEWHERE WERE
PEAKING. THE GOVERNMENT FAILED TO FOLLOW THROUGH ON ITS
COMMITMENTS -- AND ITS OWN LAW -- ON EVICTING BOSNIAN CROATS
FROM ILLEGALLY-OCCUPIED HOMES BELONGING TO SERBS. WHILE
BUDGET SHORTFALLS WERE GENUINE, THE GOVERNMENT COULD HAVE
DONE MUCH MORE TO ENCOURAGE RETURNS. DESPITE CONSISTENT
URGING FROM THE INTERNATIONAL COMMUNITY, THE RACAN GOVERNMENT
SIMPLY DID NOT MAKE THESE ISSUES A HIGH PRIORITY. NOW, WITH
AN ELECTION YEAR IN THE OFFING, IT IS EVEN LESS LIKELY THAT
THE GOVERNMENT WILL FOCUS ON RETURNS. BOTH WE AND OUR
EUROPEAN COLLEAGUES HAVE MADE IT INCREASINGLY CLEAR THAT
CROATIA MUST PERFORM ON THIS ISSUE IF IT HOPES TO PROGRESS
TOWARDS EU AND NATO MEMBERSHIP. THIS IS A MESSAGE WE MUST
CONTINUE TO HAMMER HOME AT NATO, AS WE BELIEVE THE EU WILL
ALSO IN RESPONSE TO CROATIA'S APPLICATION FOR CANDIDACY.

118. (C) CROATIA'S JUDICIARY REMAINS THE SECTOR WHERE THE
RACAN GOVERNMENT HAS MADE THE LEAST PROGRESS ON REFORMS. THE
LACK OF PROPERLY-FUNCTIONING CIVIL COURTS HAS BECOME AN
OBSTACLE TO REFORMS IN OTHER AREAS LIKE PRIVATIZATION AND
PROPERTY RESTITUTION. BUT THE PROBLEMS IN CRIMINAL COURTS
HAVE MORE COSTLY EFFECTS: POOR PROCEDURE, LACK OF
ORGANIZATION, INSUFFICIENT RESOURCES AND -- MOST IMPORTANTLY
-- UNPROFESSIONAL JURISTS SUBJECT TO POLITICAL INFLUENCE HAVE
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MEANT THAT SOME SERIOUS CRIMES HAVE GONE UNPUNISHED. THE
LACK OF LEADERSHIP AND COMMITMENT TO JUDICIAL REFORMS HAS HAD
AN IMPACT ON OUR ENGAGEMENT WITH THE GOVERNMENT. USAID
RECENTLY TERMINATED AN ASSISTANCE PROGRAM WITH THE ZAGREB
MUNICIPAL LAND REGISTRY, AFTER TWO YEARS OF MIXED RESULTS.
THE REGISTRY'S MULTIYEAR BACKLOG IS A MAJOR BARRIER TO BOTH
FOREIGN AND DOMESTIC INVESTMENT, YET THE COURT RESISTED ALL
EFFORTS TO IMPLEMENT MEANINGFUL MANAGERIAL REFORMS.
SIMILARLY, PROGRESS ON AN ONGOING JOINT WORLD BANK/USAID
PROGRAM TO DEVELOP AND IMPLEMENT A NEW COURT AND CASE
MANAGEMENT SYSTEM IN COMMERCIAL COURTS COUNTRY-WIDE HAS BEEN
SLOWED TO A CRAWL DUE TO A MINISTRY OF JUSTICE THAT IS
UNCOOPERATIVE AND RESISTANT TO REFORM.

119. (C) THERE IS SOME HOPE FOR CHANGE. ALTHOUGH THE JUSTICE
MINISTER CONTINUES TO DISAPPOINT, CROATIA PASSED A NEW
CRIMINAL CODE AND INSTALLED A NEW, BUSINESSLIKE STATE
ATTORNEY IN 2002. WHILE THE LORA WAR CRIMES TRIAL WAS A
SPECTACULAR FAILURE, THAT RULING COULD BE REVERSED ON APPEAL.
THE BOBETKO INDICTMENT MAY HAVE GIVEN NEW ENERGY AND URGENCY
TO THE GOVERNMENT'S EFFORTS TO PROSECUTE WAR CRIMES
DOMESTICALLY.

HOPES FOR EU AND NATO MEMBERSHIP

120. (C) EU MEMBERSHIP REMAINS CROATIA'S TOP PRIORITY, AND IT
HAS MADE SOME IMPORTANT PROGRESS TOWARD THAT GOAL IN THE PAST

YEAR. THE GOVERNMENT INTENDS TO SUBMIT ITS FORMAL APPLICATION IN THE FIRST HALF OF 2003. THE EU'S RESPONSE WILL BE COLORED BY CROATIA'S HANDLING OF THE BOBETKO
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INDICTMENT. THE RACAN GOVERNMENT HAS ANNOUNCED A "EUROPEAN OFFENSIVE" IN WHICH THE PM WILL VISIT MOST EU CAPITALS IN THE COMING MONTH TO TRY TO GET CROATIA BACK IN THE GOOD BOOKS OF MEMBER STATES.

21. (C) NATO MEMBERSHIP REMAINS A HIGH PRIORITY FOR THE GOVERNMENT, BUT HAS LESS SALIENCE WITH THE PUBLIC AFTER PRAGUE; THE UNDERSTANDING THAT AN INVITATION IS YEARS AWAY HAS FILTERED DOWN. WITH U.S. FORCES ENGAGED ELSEWHERE, WE HAVE LESS HIGH-PROFILE MILITARY ENGAGEMENT WITH CROATIA.

LOOKING AHEAD

22. (C) AS 2003 UNFOLDS AND ELECTIONS APPROACH, THE RACAN GOVERNMENT WILL TRY TO FOCUS ON A NARROWER SET OF GOALS WITH EASY-TO-UNDERSTAND APPEAL TO VOTERS. ONE POLITICAL INSIDER TOLD US THAT THE HSS WOULD NEVER CALL FOR NEW ELECTIONS WITH A PAPAL VISIT ON THE CALENDAR FOR JUNE. SINCE THEY WOULD NOT RISK BEING BLAMED FOR DISRUPTING THE TOURIST SEASON EITHER, THE MOST LIKELY DATE FOR ELECTIONS WOULD BE OCTOBER 2003, BEFORE THE BUDGET HAS TO BE PASSED. ELECTIONS MUST TAKE PLACE BEFORE APRIL 2004, WITHIN SIXTY DAYS AFTER THE END OF THE CURRENT SABOR'S FOUR-YEAR TERM, WHICH BEGAN WHEN THE NEW

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ACTION EUR-00

INFO	LOG-00	AID-00	CIAE-00	DODE-00	SRPP-00	EB-00	VC-00
	H-01	TEDE-00	INR-00	IO-00	L-00	VCE-00	AC-01
	NSAE-00	NSCE-00	OIC-02	OMB-01	PA-00	PM-00	PRS-00
	ACE-00	P-00	SCT-00	SP-00	SS-00	STR-00	TRSE-00
	T-00	USIE-00	PMB-00	PRM-00	DRL-02	G-00	SAS-00

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TO SECSTATE WASHDC PRIORITY 9211
INFO EUROPEAN POLITICAL COLLECTIVE PRIORITY

C O N F I D E N T I A L SECTION 05 OF 05 ZAGREB 000107

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SUBJECT: CROATIA: THREE YEARS OF POST-TUDJMAN GOVERNMENT; A MIXED REPORT CARD

PARLIAMENT FIRST CONVENED IN FEBRUARY 2000. THAT LIKELY MEANS CROATIA -- AND WE -- FACE A LONG CAMPAIGN SEASON IN WHICH LITTLE PROGRESS IS MADE ON THE ISSUES MOST IMPORTANT TO US.

23. (C) POLLS SHOW THAT THIS ELECTION IS RACAN'S TO LOSE: THE NUMBER OF RESPONDENTS WHO SAY THEY WILL VOTE, BUT HAVE NOT DECIDED FOR WHOM, IS LARGER EVEN THAN THE HDZ'S NUMBERS.
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POLLSTERS TELL US THAT THIS NUMBER OF UNDECIDED VOTERS IS INCREASING IN DIRECT PROPORTION TO SDP'S LOSSES IN THE POLLS. ALL OF THE POLITICAL PARTIES LIKELY TO WIN SEATS IN THE NEXT PARLIAMENT HAVE ANNOUNCED THEY WILL NOT JOIN A PRE-ELECTION COALITION, BUT ALL READILY RECOGNIZE THAT THE DAYS OF A SINGLE-PARTY GOVERNMENT ARE GONE. THAT SHOULD HAVE THE SALUTATORY EFFECT OF FORCING THE HDZ TO MOVE TO THE CENTER, TO MAKE IT A PALATABLE CHOICE FOR POTENTIAL COALITION PARTNERS.

24. (C) OUR STRONGLY HELD VIEW REMAINS THAT THE HDZ HAS NOT YET EVOLVED ENOUGH TO MAKE IT A GOOD CHOICE FOR CROATIA'S FUTURE AND WILL NOT SOON. IF RACAN IS TO SUCCEED, HE NEEDS TO USE THE COMING YEAR TO CONVINCE VOTERS THAT A COALITION LED BY THE SDP WOULD BRING CROATIA CLOSER TO ITS GOALS THAN THE HDZ. IT IS STILL IN OUR INTERESTS TO HELP HIM ACHIEVE THIS GOAL. AS CROATIA HAS MATURED, SO HAS THE ROLE OF THE INTERNATIONAL COMMUNITY IN THE POLITICAL PROCESS. RATHER THAN THE ACTIVIST, INTERVENTIONIST POLICY WE SUCCESSFULLY IMPLEMENTED TO GET RACAN'S COALITION ELECTED, WE INTEND IN THIS ELECTION SEASON TO FOCUS ON HELPING COALITION PARTIES FOCUS THEIR MESSAGES AND GET OUT THE VOTE.

25. (C) WE WILL CONTINUE TO PRESS THE CROATIAN GOVERNMENT TO MOVE FORWARD WITH REFORMS ON ALL FRONTS. WHILE ELECTION PRESSURES MAY MAKE THEM LESS RESPONSIVE TO US, OUR EU

COLLEAGUES WILL LIKELY HAVE MORE LEVERAGE, SINCE MANY VOTERS
WILL MAKE THEIR CHOICE BASED ON HOW SUCCESSFULLY THEY THINK
CANDIDATES WILL MOVE CROATIA TOWARDS THE EU. THIS IS A GOOD
THING, SINCE MORE THAN EVER, WE AND THE EU ARE PUSHING
CROATIA TO MAKE THE SAME CHOICES, AND THE EU IS PUSHING
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HARDER THAN IN THE PAST.

126. (C) PART OF THE REASON WE GIVE THE RACAN GOVERNMENT SUCH
LOW MARKS IS BECAUSE THREE YEARS AGO WE HAD SUCH HIGH
EXPECTATIONS. AND YET THE COALITION GOVERNMENT HAS FAILED TO
LIVE UP TO CROATIAN VOTERS' AND OUR OWN HOPES, IT HAS MADE
SOME IMPORTANT PROGRESS. CROATIA HAS BROUGHT INCREASED
STABILITY TO SOUTHEAST EUROPE. BUT IF IT SHOWS NOTHING ELSE,
THE BOBETKO INDICTMENT SHOWS HOW SHALLOW REFORMS ARE HERE.
OUR CONTINUED ENGAGEMENT IS VITAL TO ENSURE THAT CHANGES
BEGUN THREE YEARS AGO ARE INSTITUTIONALIZED.
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